Analysis of Responses: CIPFA TICK 2015

1 Do internal controls support the department's objectives?

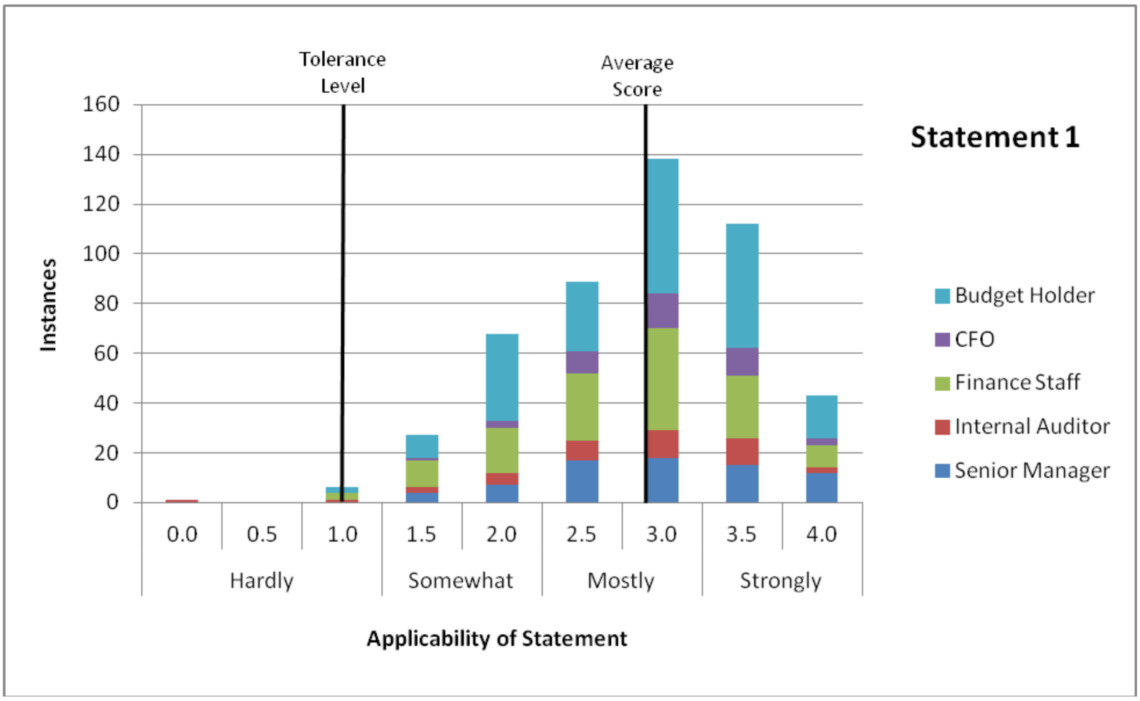
Internal control should be used to support departments in achieving their objectives by managing its risks, while complying with rules, regulations, and organisational policies.

Sustainable success depends on how well a department can integrate risk management and internal control into a wider governance system as an integral part of its overall activities and decision-making processes. A strong, integrated governance system is an integral part of managing a disciplined and controlled department. Effective integration can result in an enterprise-wide governance, risk management, and internal control system that:

- supports management in moving an organisation forward in a cohesive, integrated, and aligned manner to improve performance, while operating effectively, efficiently, ethically, and legally within established limits for risk-taking, and
- integrates and aligns activities and processes related to objective setting, planning, policies and procedures, culture, competence, implementation, performance measurement, monitoring, continuous improvement, and reporting.

Conversely, an excessive and exclusive focus on financial internal controls can distract management from ensuring that its operations or strategy are functioning as intended. Analyses of major failures frequently identify insufficiently controlled risks at the operational level that caused significant problems before any accountability documents could even be prepared.

The survey reports that internal controls "mostly" support departmental objectives, with an average score of 2.9, well above the Treasury minimum tolerance level.



As reflected in the score, a number of respondents were able to comment positively on their risk management frameworks, and the linkages to the department's strategy.

Formal risk management framework exists and is complied with. Risks support the Department's objectives.

There is strong line of sight between the Ministry's strategic planning and how programmes are resourced; the Ministry has well developed risk registers

Our strategic intentions drive our planning and resourcing. There has been quite a shift over the past year, strengthening the line of sight for management and staff.

Risk framework significantly strengthened through roll-out of standardised on-line tool.

We have a risk person who works actively with the top two layers of management.

... made a real step change here in the last year or so, especially with building work around the strategic intentions. The development of risk has improved too, with a clearer focus on what really matters to the value we deliver and to organizational health.

.... well placed in this area

... working well to ensure that resource planning is targeted to align with Ministry's strategic aims and 4 year plan priorities.

The Ministry has a reasonably high risk maturity. High risk programmes and projects manage risks effectively. The Ministry's strategic risks are linked to its mission and vision, and its business risks are weighted and linked to each of the strategic risks.

There is a risk management policy and guidance in place.

Appropriate systems for a small department.

Risks are monitored at the organisation level. They are also monitored at the individual project level. Risk monitoring at the team and group levels, and the escalation up from projects through team and group to the organisational level, is done more informally.

Teams within the Department manage their own operational risks with the senior leadership team and governance groups monitoring and managing significant risks at a strategic level.

Senior Leadership Team sub committees provide a robust platform for managing risk and ensuring resources are allocated to strategic priorities

... a very good mechanism to ensure that investment proposals are robust with good project management and alignment to strategy

Where concerns were expressed, some respondents felt that implementation of good practice is patchy...

Effective risk management and a focus on internal controls varies widely.

The Ministry had frameworks and policies but it has fallen through the cracks over the years.

The Department has internal risk registers per individual departments whilst also maintaining strategic risk registers. The 'partly' score is because not all departments risk registers have been maintained (owned by the managers of these departments, therefore not all will be linked to strategic objectives. This is on-going.

There are risk registers in place - however, from what I understand the utilisation of these is variable throughout the country and between functional groups. Financial variance reporting is a valuable mechanism for managers to report financial risk, likewise are monthly operating reports.

We have a developed strategic risk framework that is comprehensive and based on the leading standards. It needs updating and continued assessment. It does not specify risk appetite. The use of risk management across the organisation is patchy. We do not see a collated assessment reported to the governance board.

Pretty much it is with CAPEX that the internal risk controls are evident. I don't feel they are obvious elsewhere in our Department.

... while some felt that risk management frameworks were rudimentary or needing development

Basic and traditional risk management is well developed but the higher more sophisticated elements of outcome achievement and performance effectiveness are only in early development.

While risk management is in place, maturity is low but improving. Less clear is the explicit integration of risk management into business planning & allocation or resources.

There is some work underway to address this across the department at this moment.

Internal controls are all paper based and make limited use of available functionality in financial systems

There is an interest to revive this across the Ministry but this needs leadership and is only starting to take shape.

We have a current Risk Management Policy but it is due for revision.

planning and linkages between current and strategic position are still being developed and aligned.

Strategic resource allocation is still insufficiently transparent, supported by enough data, staff resources and business process to make substantial and rapid enough reprioritization adjustments

Internal controls need to be updated and applied more consistently Improving all of the time.

Risk management frameworks in the process of being reviewed and implemented - not yet complete, hence all items rated as 'partly'.

Others thought that processes were reactive rather than aligned with strategy, *There are risks such as judicial review which are difficult to link to objectives. We're in reactive mode in that respect.*

My sense is that monitoring the development of risk is difficult as often things flare up without notice.

And a few complained that this is an area that is not well communicated.

Information on internal controls is limited in its circulation.

The 4 Year Plan is a key planning document that some staff may not be aware of.

I am not familiar with the risk management arrangements although I assume they are incorporated into the financial controls and procedures.

We are moving to treating our risk treatment as projects with resourcing allocated, rather than just putting a person responsible for each one.

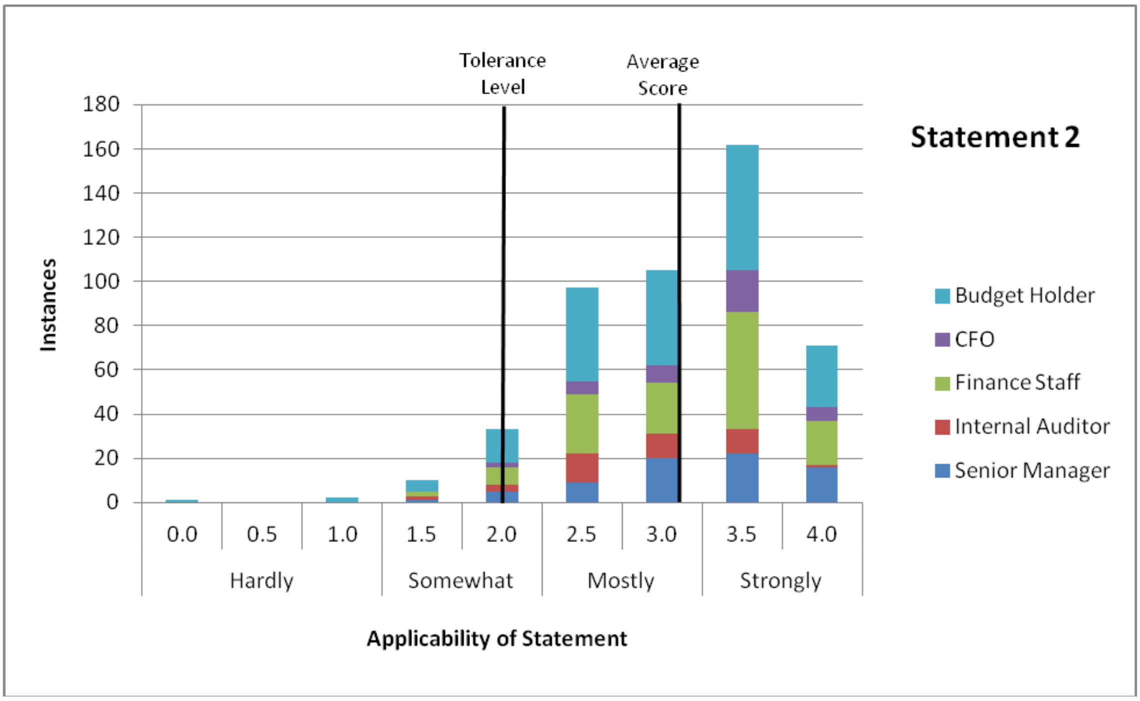
2 Do internal controls reflect roles and responsibilities?

Departments should determine the various roles and responsibilities with respect to internal control, including the management at all levels, employees, and internal and external assurance providers, as well as coordinating participants. Responsibilities for internal control are usually distributed among numerous groups:

- Senior Management assuming overall responsibility for the department's internal control strategy, policies, and system, and act accordingly. This group should define the risk management strategy, approve the criteria for internal control, and ensure that management has effectively undertaken its internal control responsibilities (ie, the oversight function).
- Finance staff, design, implement, maintain, monitor, evaluate, and report on the organisation's internal control system in accordance with risk strategy and policies on internal control as approved by the governing body.
- Budget holders are usually held accountable for proper understanding and execution of risk management and internal control within their span of authority.
- Internal auditors play an important role in monitoring and evaluating the effectiveness of the internal control system and conveying—independent of management—reassurance to the governing body. However, they should not assume responsibility for managing specific risks or for the effectiveness of controls.

In some departments, separate risk management functions exist. This function should enable broad risk management and internal control awareness across the organisation, rather than be an enforcer of compliance. Risk management staff can strengthen the risk management and control competence of governing bodies, management, and employees, but should not take over risk management and internal control responsibilities from line managers.

The survey reports that internal controls internal controls "mostly" reflect roles and responsibilities, with an average score of 3.1, above the Treasury minimum tolerance level. See chart below.



While respondents generally thought roles and responsibilities were clear...

This is a highly developed area with lots of checks and balances, the traditional strong point of accounting in general.

Detailed Policies and Procedures including Standard Operating Procedures(SOPs).

In my view, most managers are aware of their delegations

Roles and responsibilities are clearly defined and separated.

Persons accountable and responsible are identified within Business Plans - variance reporting is derived from prescriptions contained within these. Therefore a direct link exists for named individuals to own financial risk associated to them or programme of work they are responsible for.

... delegations for funding (and other responsibilities) are very clear and well defined; risk controls have named individuals and dates for actions; finance staff have defined roles and individuals assigned to support different sections of the Ministry

We are quite focused on who needs to do what and establishing the rules - we need to be given we are the government's finance lead!

Roles and responsibilities of finance staff including key contacts are clearly outlined on the organisation chart which can be accessed on the Department's intranet site.

Ministry's delegation policy and schedule have been reviewed at least once per year in the last three years to improve and refine policy for clarification and controls.

Regular monitoring and accountability of budget managers means that there is a good ethic when it comes to this discipline

Risk owners clearly identified. Roles and responsibilities of finance staff are clearly defined.

Some statements of risk a bit abstract but operational and most strategic risks are actively managed

... they were less willing to say that roles and responsibilities were well understood.

More could be done to make delegations user friendly and to more explicitly link some of the controls to the assurance framework

Yes the roles are reasonably clearly defined but I don't believe this is evidenced by a high level of awareness among managers about who to contact and when.

good process around temporary delegations but quite a lot of interpretation required around limits

The high number of delegated authorities and responsibilities can cause some confusion and takes some time to locate specific examples

the roles/responsibilities of finance staff are clear but I don't believe there is a high level of awareness of this amongst managers.

Delegated authorities and responsibilities are reasonably clear in the new structure - but largely impractical. E.g. much of the financial delegations sit with managers and above, whereas in the past programme managers were delegated to support managers with financial responsibility which eased the capacity demands on managers and provided a greater quality of detailed management.

Each business area has its own identified management accountant - the area of uncertainty is whether we have properly resourced action plans as part of our risk management practices.

Structured arrangements are in place but I am not convinced that they are as effective as they could be in promoting effective delegation

internal controls need some work

Perhaps too many and too detailed. Lack of awareness of above at a grassroots level a concern.

Don't know

Several comments were made on the impact of staff changes and turnover affecting their rating

Business Assurance Unit is carrying a number of vacancies therefore resources are limited

... high staff turnover in finance recently has made it difficult to understand who is doing what role

There have been changes this year and the new structure is bedding in.

The finance function is going through a structural change - transition issues still being worked through to ensure new roles/new people are in place and the new business partnering finance function is operating as it should.

The department has undergone a broad transformation and is in the process of firmly defining roles

While a couple of comments pointed to tensions in the management of responsibilities

The tension between developing the business and addressing significant infrastructural & foundational aspects that are, in reality, necessary before the business development can be successful is apparent (i.e. lack of realisation that a strong foundation & willingness to fund this is lacking).

Finance staff walk a line between supporting the business and reviewing the business - a difficult role. They need strong support from the mgmt team for this to work effectively. They may be strong in the processing area but also need to partner with their groups and offer robust advice.

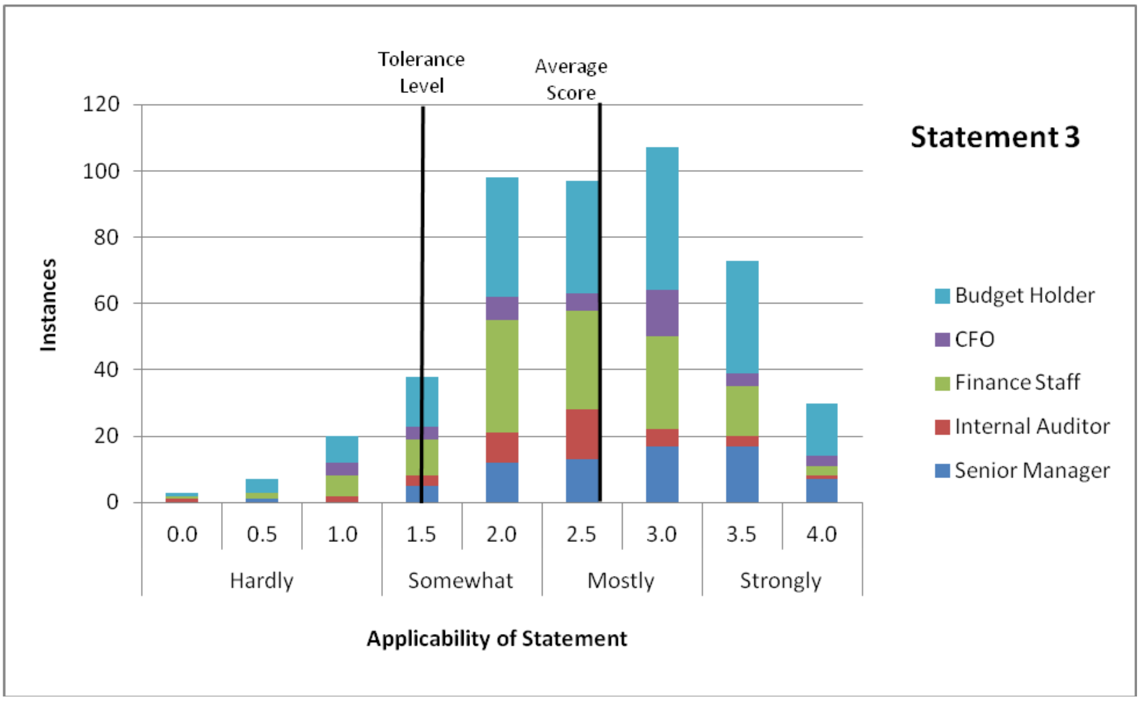
Organisational Business Accountants (BA's) are well known and relied upon to support financial processes. The roles and responsibilities of the BA requires that they be very agile across a range of financially related tasks and support the organisation as it has struggled to settle into its new operating model. In the new operating model, the BA has a very large geographical spread and the diversity of capability within it and so with that said are often heavily relied upon to fill the void of less financially competent managers.

3 The achievement of internal control objectives is linked to individuals' performance objectives

Departments should link achievement of the organisation’s internal control objectives to individual performance objectives. Each person within the organisation should be held accountable for the achievement of assigned internal control objectives.

It is important that the department ensures that those who are responsible for each risk are maintaining those risks within established limits for risk taking, as they may be inclined to choose their own risk limits over those of the department. Because achieving the department’s objectives and maintaining effective controls are linked, this should be recognised in the department’s process of performance assessment.

The survey reports that achievement of internal control objectives is “mostly” linked to individuals' performance objectives, with an average score of 2.6, above the Treasury minimum tolerance level. See chart below.



As a prompt in considering this statement, respondents were asked to consider whether managers were held accountable for performance and financial outcomes, with meaningful consequences for their appraisal. As with last year, a significant number of comments focussed on the lack of meaningful consequences.

There are little meaningful consequences for managers for non performance and financial outcomes

Lip service really - hardly anyone suffers the consequences of their poor management decisions

I have not observed or experienced a direct correlation between the Departments financial competency and appraisal scheme nor am I aware of consequences for financial outcomes.

Holding managers to account needs to be strengthened, there appears to be some tolerance of failure to meet targets and the value for money area is not seriously tested and linked into outcomes.

There is a performance appraisal system in place which covers financial management for applicable managers, but the consequence side is lacking

Meaningful consequences are not apparent in the Department

Not a strong focus on financial performance management.

Believe we could strengthen individual accountability especially at the manager (Tier 4) level, in terms of meaningful consequences

Financial objectives formally cascaded to Tier 3. Meaningful consequences for non-achievement are not explicit. No explicit objectives linked to internal controls more generally.

A financial management objective is incorporated into Senior Managers performance management plans. Not sure what the consequences are if this objective is not met.

Uncertain as to what level there are any implications for poor value for money decisions

Managers are accountable, but consequences of not meeting expectations vary considerably

There is room for improvement in this area. Stronger accountability for financial decisions could be implemented.

Value for money and benefits realisation outcomes are not consistently recognised in the performance appraisal scheme.

From my perspective financial management accountability is poor or non-existent.

I do not have a strong view across the organisation on this point. In most areas I think this is done well but it needs strengthening - especially as to value for money decisions.

Other respondents were however able to provide comfort that accountability was enforced through performance assessment.

Senior managers have previously received warnings for the financial management issues by their managers. Managers implicated have received sanctions from senior management. Although no issue occurred in the last or current financial year, I believe that this standard continues to apply.

Small Ministry. Biggest resource is staff time and this is monitored against budgeted hours and reported on.

Whilst the Department does not have an appraisal scheme that includes financial management competencies, it is encouraged that these competencies form part of an individual's performance development conversation.

Decisions that have financial implications outside of the manager's usual operating budget is managed by business case. Value for money implications are considered and approved by managers with appropriate delegation levels and by a financial governance committee.

There is now a stronger focus on financial implications of any proposal as limited funding requires reprioritisation.

Performance agreements include appropriate competencies, and require attendance at relevant courses, demonstration of competence and requirements for financial planning, reporting and achievement to meet quantitative targets

Two big changes over the last year that will make an impact in future.

> *1) 6 months ago the Chair of our Investment Committee changed from a non-financially literate to financially literate person. We are seeing changes being made with our Strategic Leadership Team (Board) starting to say no to investment bids, until further work is presented.*
>
> *2) Our Strategic Leadership Team has had some big changes with new board members starting to talk about adding forecasting KPIs into their managers appraisal schemes. Not sure if they are talking about it or actually doing it.*

Managers have all had performance appraisals with financial expectations. Budget delegations to managers below senior level is relatively new though, so there would have to be a virtual misconduct for any consequences beyond further training to take place

This is an improvement and will be fully imbedded during 2015/16 FY.

Financial accountability statements form part of all manager's performance agreements.

Expectations are made clear at all levels of Management and are regularly revisited in coaching and training

Performance objectives for managers have clear financial management competencies include and managers are held accountable.

Budget Managers are very accountable for their respective areas of responsibility with regular monitoring / reporting and correction where necessary.

Very strong monthly financial performance management, especially around variance reporting and forecasting end of year outturn positions and actions or mitigations required.

However, others expressed a fair amount of doubt.

Am not sure how the CE is approaching accountability for financial management with the GMs

I do not know how the controls objectives are linked to the individual's performance objectives

Such requirements are linked to Corporate Finance staff only yet there is an absolute dependence on business managers to understand and exercise financial control without adequate training or understanding that financial delegation is limited by appropriate expenditure rules (and there is a lack of awareness & training on these rules).

My understanding is that managers are held accountable, but I'm not sure whether there are any meaningful consequences.

This is the first year of financial management being a generic objective. It is therefore unclear as to the consequences for non conformance/non delivery.

Some respondents differentiated the effectiveness of accountability between aspects of financial management, for example, between control of overspends and value-for-money.

My experience is that most managers in the organisation are very conservative in their approach to expenditure - which can be problematic in itself (?). I have not seen evidence of reward, recognition or otherwise for "value for money" achievements. In the old model BA's were seemingly better connected to financial managers or had a greater level of influence and would regularly acknowledge good financial performance of offices and individual managers. The new Partnership model provides an opportunity to better measure value for money growth outcomes for managers in 'some' sectors of the organisation.

Quality of expenditure decision making a concern in some instances.

Not mature across the whole business

It is clearly around some types of spend than others: e.g. for Non-Departmental and Capital Asset expenditure, managers are held very accountable for value for money, results and expenditure management.

The Ministry is good at monitoring and managing to prevent over-spending or poor quality spending. It is less able to fully deploy its total and allocated budgets.

Sometimes decisions appear to be made that are not for the wider benefit of the organization rather, to maintain the status quo

I find that I now have little to do with the budget process aside from approving purchases and ensuring annual leave is managed.

There is some variability in the extent to which there is genuine accountability for (sub-par) performance.

Attributing downstream costs to decisions is difficult in an end to end model like ours

This is not explicit in our performance expectations - and we are quite weak at knowing what our cost to serve is (and what costs there are in regard to our risks and the mitigations we apply).

Unless someone has put in their personal reports that they are a cost/responsibility centre manager no other individual reporting is done (that I can see).

some times there is not absolute clarity, due to changes in the budgets and forecasts during the year

4 There is sufficient competency in fulfilling internal control responsibilities

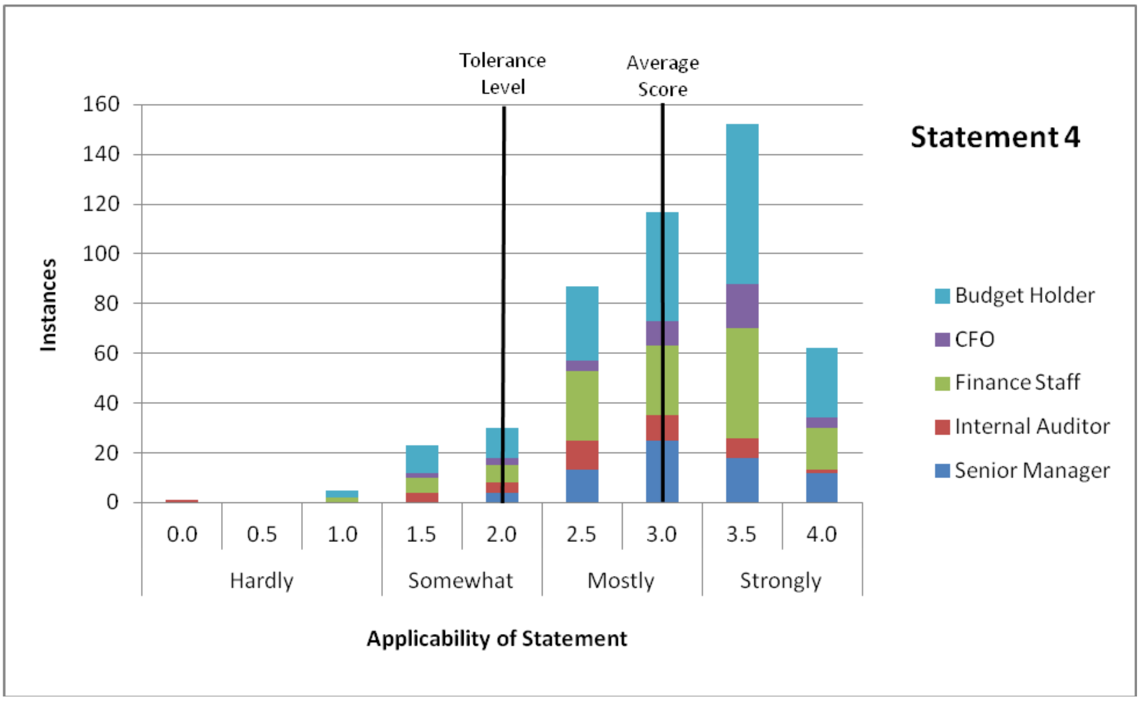
Department staff should be sufficiently competent to fulfil the internal control responsibilities associated with their roles.

Competence in this respect means:

- having sufficient understanding of how changes in the department's objectives, external and internal environment, strategy, activities, processes, and systems affect its exposure to risk
- knowing how risks can be treated with appropriate controls, in line with the department's risk management strategy and policies on internal control
- knowing the principles of the segregation of duties to ensure that incompatible duties are properly segregated, so that no individual has total control over a transaction
- being able to implement and apply controls, monitor their effectiveness, and deal with any insufficiently covered risks, as well as with possible control weaknesses or failures
- having sufficient capabilities available to evaluate and improve individual controls, and

- being able to execute or review the evaluation and improvement of the organisation's internal control system.

The survey reports that there is "mostly" sufficient competency in fulfilling internal control responsibilities support departmental objectives, with an average score of 3.0, above the Treasury minimum tolerance level. See chart below.



There was a fair amount of uncertainty expressed over competency levels

I really don't know about the competency of senior staff.

In the Finance area this is probably Ok but 'in the field' I suspect there are capability issues

Although I am a Cost Centre manager and assist my manager to be the Responsibility Centre manager, I have not noted any specific financial competencies in position descriptions.

This is hard for me to answer, as I don't have enough information to provide useful information. I believe that finance roles are performed by suitably competent accountants though.

Unsure whether all managers with delegated financial authority have the appropriate financial management skills

Although more were comfortable assuming that there was sufficient competency or had observed that in practice..

Unsure if our senior finance positions are filled by competent experienced accountants - I just assume they are

The financial responsibilities and related competencies for Managers with financial delegations is generally well described within job descriptions

Our new finance team is highly skilled and has really lifted the skill brought to financial management.

Senior finance positions are filled by suitably qualified accountants and provide a very good service

This is also a strong area of traditional management, if there was any shortfall it would be in the area of training and development which seems to be the poor cousin in funding terms.

The Dept has a solid consistent recruitment process that ensures the right person is in the right job.

The Ministry's financial staff include an appropriate range of experienced, expert and skilled staff appropriate for their various roles; six-monthly reporting on compliance with codes of conduct is required

Senior financial staff are very well aware of responsibilities and obligations.

There is no formal framework but financial management competencies are included in job descriptions of relevant roles and responsibilities are set out in financial delegation letters which senior staff sign

Code of conduct is part of standard induction processes. The finance function has a significantly experienced and competent financial advisory team.

The appropriate material and advice is easily accessible and the rank structure is such that incremental knowledge and application is built as experience in leadership develops

Systems in place are appropriate for a small policy department of 150 with limited discretionary budget.

On the job training was emphasised

These competencies are often superseded by other role related criteria, often resulting on the need for managers to learn on the fly or require ongoing support.

Ensuring managers are adequately trained to use our systems is an area that may benefit from attention, and better enable fulfilment of internal controls

There is no specific list of competencies, but those managers that are required to manage budgets receive training on an as needs / individual basis & are supported by a named contact from the finance team

Some managers learn as they go along. This isn't necessarily a bad thing as it means they're often very aware of their responsibilities and anxious to perform well.

Competency exists but not formalised in all cases.

Ongoing piece of work to lift financial capability through training across all managers with financial responsibilities.

The impact of restructuring was seen as a negative on competencies

Following the restructuring the level of competency dropped demonstrably. It has not recovered to the former level. 'Winging it' outcomes are obvious and Business Accountants have to provide guidance to many managers

Finance has undergone significant change so are establishing its full capacity

New structure and people in place for this financial year end so no direct comments from external auditor

Capability is being built following a significant restructure and plan to improve the overall performance of the finance function and finance capability across the department. There has been a noticeable improvement but still more to do

Audit NZ rated Internal Controls as 'Needing Improvement'. Some of the areas requiring improvement related to the Finance Function. At the time of the 13/14 Audit, Finance were in the midst of a restructure and embedding the new Financial System, consequently it was acknowledged by Audit NZ that some of the areas of concern were one off and unlikely to be repeated. In review meetings with the Audit NZ for the 14/15 audit, positive comments have been made by Audit NZ about recent experiences with the Finance Function.

However, some concerns continue to be expressed that financial management competencies are under-resourced or undervalued.

some management positions that have financial competencies have been filled by staff who have management experience yet do not have qualifications in that field.

KPMG have done an 'Optimisation' piece of work a few months ago. Their recommendation is that some of the Corporate functions (including Finance) are under resourced.

The maturity is relatively low in understanding risk and the need for controls. There is a lack of understanding about the purpose and value of quality assurance and control processes and these tend to be eliminated or incorrectly focused.

The issue we have is not so much competency but rather getting people to see the value of the activity. It can come across too much as compliance rather than something that really adds value to the way we do our work. Can we improve the insight and information that comes from the finance system to help understand and drive this value?

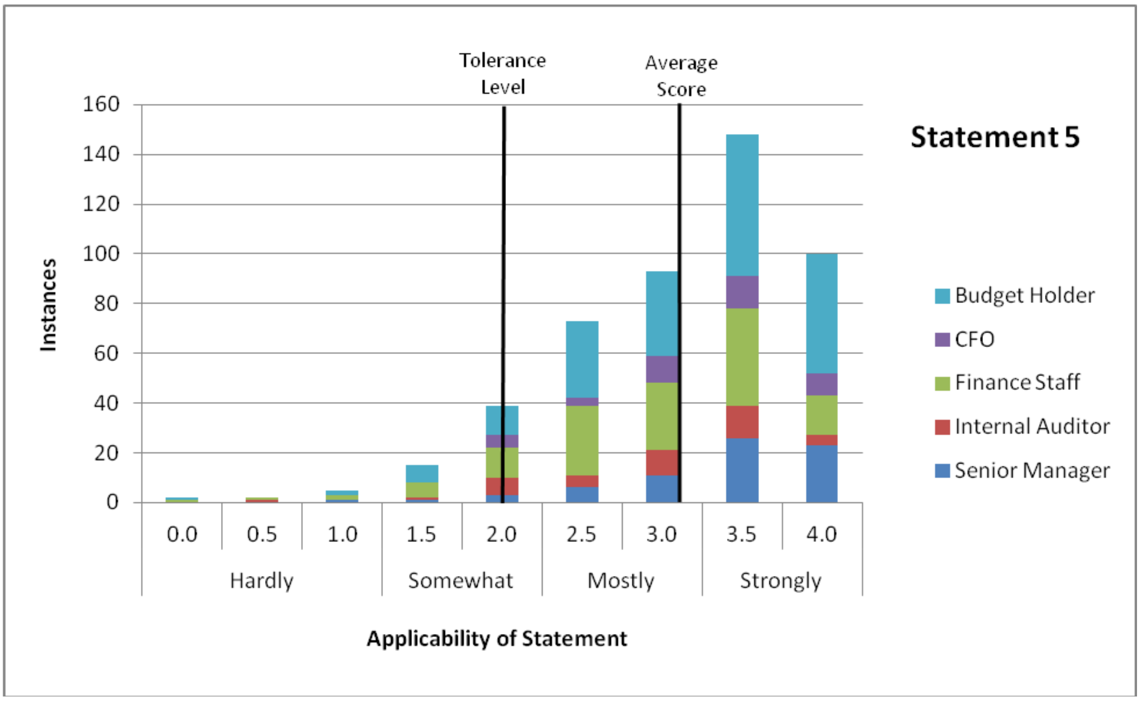
5 The "tone at the top" motivates staff to adhere to internal control policies

The chief executive, the senior management group and management generally should foster an organisational culture that motivates members of the department to act in line with risk management strategy and policies on internal control set to achieve the department's objectives. The tone and action at the top are critical in this respect.

The "tone at the top," the culture, and the ethical framework of the department are essential to an effective internal control system. The chief executive and the senior management group alike need to lead by example with respect to good governance, risk management, and internal control. For example, if senior management appears unconcerned with risk management and internal control, then employees down the line will be more inclined to feel that appropriate management of risk through effective controls is not a priority.

While a code of conduct can support and enable the desired types of employee behaviour, the principles in such codes need to be continuously reinforced principles in word and deed, with training programs, model behaviour, and by taking actions in response to violations.

The survey reports that the "tone at the top" “mostly” motivates staff to adhere to internal control policies support departmental objectives, with an average score of 3.1, above the Treasury minimum tolerance level. See chart below.



A number of respondents reflected positively on the effort that Chief Executives and Senior Management Teams put in to set the right tone at the top.

Change in chief executive has made a huge difference: proper behaviour is now expected and modelled from the top, but culture change is not immediate...

Senior managers ... are proactive with their financial matters and their managers

Some good leadership from senior managers has displayed the expectations for all staff. This includes taking fiscal responsibility seriously.

The financial discipline at the top is strong.

Regular discussion on and visibility of financial matters at the Executive Level.

The executive leadership team lead by example in all aspects.

There are no exceptions to compliance with finance rules and delegated funding authorities. Checks and balances within Groups and Business Units ensure compliance regardless of seniority

I think this is improving, we have a good senior management team with a number pushing hard in this area

There are strong messages on prudent and responsible financial management and the same applies to risk management

I imagine the senior management team involved in determining key risks and responses.

This is a key focus for the Executive with very clear example set at the top

After the anxieties of 18 months ago budget issues are actively managed

Changes implemented during 2014/15 have help strengthen and support management in its focus on risk management, organisational performance and reprioritisation decisions.

Chief Executive is an accountant and very strong on tone and perception.

Senior managers are provided with reports to allow them to follow up any issues and leadership team discusses finances on a monthly basis.

Senior managers understand and communicate to middle management the requirements and the need to comply in spirit and deed. The all-of-government procurement arrangements have complicated the overall picture while simplifying the process that applies in specific cases, which has lead to some confusion; however, finance, legal and HR have been able to resolve matters in each case.

However respondents also provided reminders that every action taken by senior managers contributes to the tone that is set, and that inconsistencies between managers, and between practices are keenly observed. Also, setting the tone at the top requires high visibility and effort in communication to be maintained.

Senior Managers do demonstrate good leadership and in principle generally set the tone for financial matters - However, acceptance or uptake of related financial responsibilities (reporting etc) is variable and is sometimes outweighed on perceived organisational priorities.

Senior management role determining key risks and responses is variable with an improved level of attention in recent times

Sometimes there can be mixed messages coming out that conflict with different views in different parts of the department.

Wastage is higher than one would expect.

There are inconsistencies across the Department - rules that apply within some teams are not unilaterally enforced

Not all management are pro-active in their conduct and conformance with policies and guidelines. Audits assist in identifying inconsistent practices.

There is a strong convenience factor influencing compliance from the top down with variation between messages and behaviour. There is too much waste occurring in an environment where cuts to ability to deliver service are being made.

There seems to be a feeling within the organization that policies are made but are overruled by certain people. In particular this refers to catering policy for internal events, and preferred accommodation suppliers for some people.

Some senior managers have demonstrated they don't have enough knowledge of financial matters, where proposals to transfer funds between appropriations have come unstuck

high level risks are certainly reported to senior management. Proactively looking for risks is certainly an area for improvement.

there is an inconsistency between senior managers - some would be yes and some no.

Senior management sets the tone for financial management well. There are some areas where the tone at the top is not good eg gender humour.

the issue becomes when finance becomes more compliance focused rather than an enabler for the business delivery. We still need to get this balance right.

6 Internal controls respond to risks

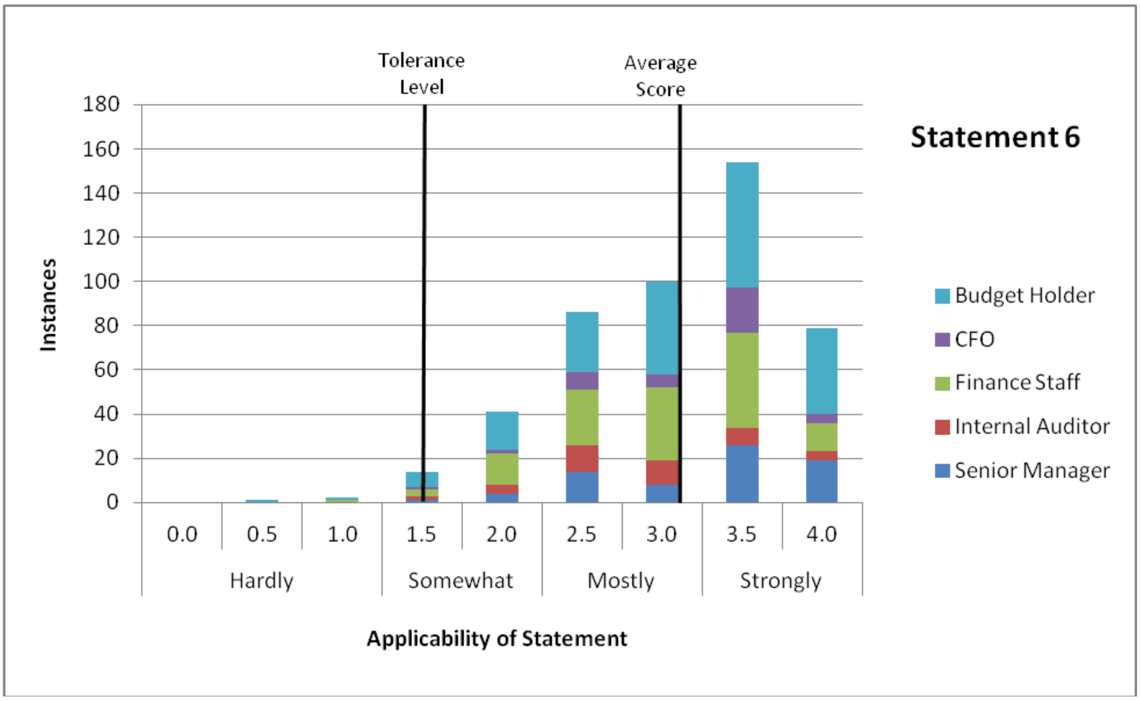
Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

Controls are a means to an end—the effective management of risks, enabling the department to achieve its objectives. Before designing, implementing, applying, or assessing a control, the first question should be what risk or combination of risks the control is supposed to modify.

Departments should mandate that all strategic and operational decision making is supported by risk management and the subsequent implementation of appropriate controls. All important deviations from the intended outcome need to be assessed.

Departments should be aware that various risks can create an aggregated effect of uncertainty on the achievement of their objectives. Therefore, risks should be assessed and controls designed taking common causes and synergies into account, including escalation and domino consequences.

The survey reports that internal controls “mostly” respond to risks, with an average score of 3.1, above the Treasury minimum tolerance level. See chart below.



Respondents were generally able to provide a large measure of assurance that internal control procedures are regularly reviewed and updated

The department does seemingly review and update controls where necessary. E.g. financial delegations elevated. The organisation has a high level of awareness and protocols to ensure the organisations reputation is upheld.

The Department has operated with a very effective Business Assurance team and by all accounts had very efficient procedures to aid in the prevention and detection of misconduct, fraud and corruption.

this an area of strength, resources are made available to investigate anything that looks odd. If we needed anything in this area it would be more emphasis on prevention.

The MOR process is used to escalate risks

Senior managers take health and safety very seriously - all staff are involved in identifying risks and options to mitigate.

Internal controls exist and are reviewed. Procedures to prevent, detect and investigate misconduct exist but are probably due for updating. Senior management escalation procedures for risk exist.

The Department has an external advice committee that audit uses to communicate recommendations that have not been rectified in a timely manner. This has been effective in gaining traction on these outstanding recommendations.

Good rules and reporting systems in place, checks to ensure staff know the rules and how to report concerns

Where finance becomes aware of risks it will escalate them to the Strategic Leadership Team (Board).

Internal Controls and operating procedures are adjusted from time to time based on events that have exposed a weakness within a set of internal controls

Policy and procedure is very clear, backed up by good internal control processes.

When shortcomings are identified it is inevitably because the people haven't followed policy. A robust review of both follows when a departure is identified but with preventative controls in place

Policies and procedures are updated on regular basis.

Procedures are currently being updated to strengthen them

A lot of effort has been put into reviewing our internal controls to make sure that they do address areas of concerns and feedback from Audit NZ

Ministry's risk management policy and guideline provides instructions for escalation of risks and issues. The Ministry has just recently conducted a fraud risk assessment with minimal areas for improvement noted.

Regular reviews of legislative compliance and other policies.

Identified breakdowns not usually significant enough for Leadership team action.

the arrangements are informal in the sense of usually requiring someone to create the conversation to raise the risk. Basic business metrics are reviewed regularly, however, so finance and output risks have that regular opportunity to trigger discussion.

The Department has a dedicated team specifically set up that manages prevention and detection procedures, and investigates misconduct, fraud and corruption.

Some highlighted the importance of communication and awareness of changes

Needs to be communicated when it is updated or staff need to remind that it exists on say and annual basis. Couldn't say whether information is included in induction materials or not

There remain opportunities to more proactively led efforts to raise awareness of anti-fraud policies/related initiatives.

Fraud prevention and detection requires more than up-to-date procedures, there must be a constant awareness of the issue and checking by those in key positions as well as all staff.

And a few cases resource problems were noted

Due to a number of vacancies within the business assurance team, it has been left to Administration Managers to ensure controls are in place to catch any fraud etc

Internal audit has been weakened through reorganisation and financial risk management has been impaired.

A couple of comments suggested that resources could better be directed elsewhere

Internal controls needs an overhaul. Emphasis is on Fraud Investigation not Prevention.

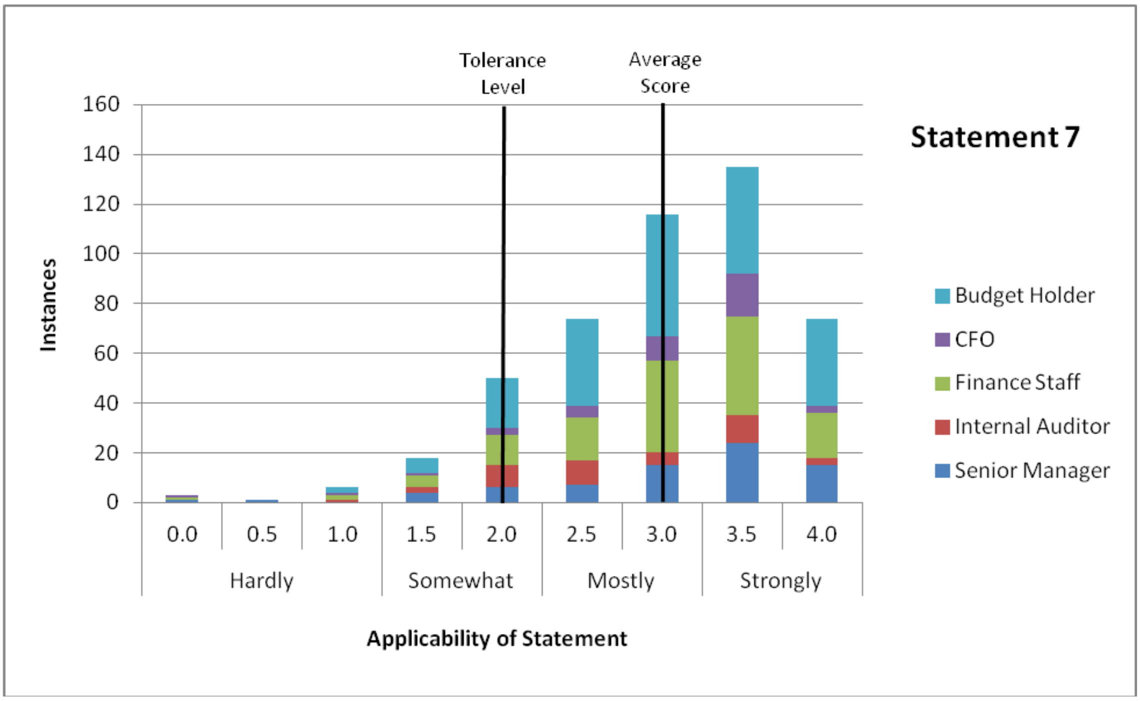
Maybe we are too good at this as we have a risk aversion culture!

7 Regular communication regarding the internal control system takes place

Internal controls can only work effectively when they, together with the risks they are supposed to modify, are clearly understood by those involved. Therefore, controls should be documented and communicated.

This is only the beginning; risk management and internal control should also be embedded into the way people work. Therefore, management should ensure, through active communication and discussion, that what is written in a policy document is understood widely across the organisation and applied in practice by employees.

The survey reports that regular communication regarding the internal control system “mostly” takes place, with an average score of 3,0, above the Treasury minimum tolerance level. See chart below.



A fair amount of confidence was expressed in current procedures.

Finance Staff are aware of the roles and impacts, some other managers could do better Most staff have the knowledge to pass on a concern - so they know 'what to do' in that sense.

The level of honesty is extremely high and the consciousness of value for money and need to advance is high in the dedication levels of staff that prevents wrongdoing because of the consequence.

The intranet is a good source to answer these types of questions and is available to all staff.

Internal and external audits provide assurance over processes and compliance with policies and procedures. Regular communication occurs quarterly formally, and also through the issues of audit reports.

Updated code of conduct just issued. (with publicity)

On the whole yes. The policies are there, procurement guidelines and purchasing processes are pretty clear. Advice from procurement specialists has been great (simple and clear)Not all managers will adhere though. Procurement particularly through the ARIBA system appears to be very time consuming and cumbersome

All staff involved are required to attend training in systems and processes; procedures ensure staff follow appropriate rules; regular updates for reporting suspected noncompliance or fraud

As a finance staff member we are aware of relevant processes and procedures.

Staff are required to advise their Manager- no formal training

There is specific training and sign off that needs to occur before a staff member can use the systems to enter and/or approve financial transactions

Occasionally there are gaps that are addressed at the time - eg a staff member asked to confirm that an invoice is appropriate.

There is a good discipline in place however from time to time a shortcoming has been identified, reviewed and addressed appropriately.

all staff should know as there is a Fraud Policy which is included in induction procedures

I feel there has been really focused effort from finance around this for the past 2-3 years, which is paying off. The offer of training and support from the business analysts has been really good. The base of integrity and ethics is critical to our operation as a public department, so keep it up!

we do have easy and regular access to Finance staff to discuss.

Monitoring of the Purchase to pay process takes place with weekly assessments of compliant invoices and purchase orders.

Non-finance staff are being given more information about their respective roles.

We haven't had a lot of suspected fraud or corruption but with the few examples we have had people have followed our processes.

There is a strong internal audit function within the Ministry.

As a small policy shop, fraud and corruption are assessed as low risk for the Ministry.

Polices and reporting guidelines are in place.

The Department communicates key processes on its intranet page in addition to finance staff having regular contact with the business.

The Department regularly monitors staff compliance with policies and procedures and breaches are identified and remedied.

There are clear instructions also on the intranet page to assist staff on who they can contact (which includes a dedicated 0800 number) if they suspect misconduct, fraud or corruption.

The reservations that were expressed mainly focussed on the need for constant refreshment and education to maintain current levels, with a particular focus on what to do when breaches are identified or suspected.

There could be more comms re the misconduct / fraud / corruption process - has been communicated in the past but people forget so need regular reminders, though they could source this off intranet

Staff need to be regularly, say annually, advised of the process

No briefings on Protected Disclosure etc. Instances of financial misconduct not published within the Department mainly for legal reasons.

In a general sense staff know what is right and wrong and how to identify financial misconduct, fraud or corruption but few would know how to formally report such instances and challenges for a minority being confident (in their facts) and courageous enough to escalate fraud or corruption.

Fraud awareness is not a regular or frequent topic of discussion with all staff.

There is a lack of training & awareness on expenditure. People are aware of their delegations but not the responsibility or rules that go with it.

Staff involved in financial processes are aware of their own role but possibly don't understand the end-to-end supply chain. Most staff area aware of what to do if they suspect fraud, misconduct or corruption - this could be reinforced however through additional education/awareness.

believe that some/most staff would know this but probably not all.

We are overdue to republicise our protective disclosures policy. I think it likely that new staff may not be aware of what to do if they suspect a manager or someone higher than them in the organisation of fraud etc. This is planned for this year.

I'm not involved in financial processes, but I think that staff are aware of their roles. I'm not sure that it's especially clear that what staff need to do if there's a suspicion of foul play. On the other hand, it's pretty logical that you go to your manager, or finance, or higher up, depending on where the problem is perceived to be. There are policies available on the intranet, but all staff may not be aware of these.

The Department is currently trying to settle after what is regarded as one of the biggest public service restructures. Due to span of control issues and stretched capacity there is undue pressure on managers with financial responsibilities to fulfil role expectations to the level of detail required.   Therefore, I do not believe all staff are fully aware of their full obligations within policies, nor compliance to policies monitored to a high degree.

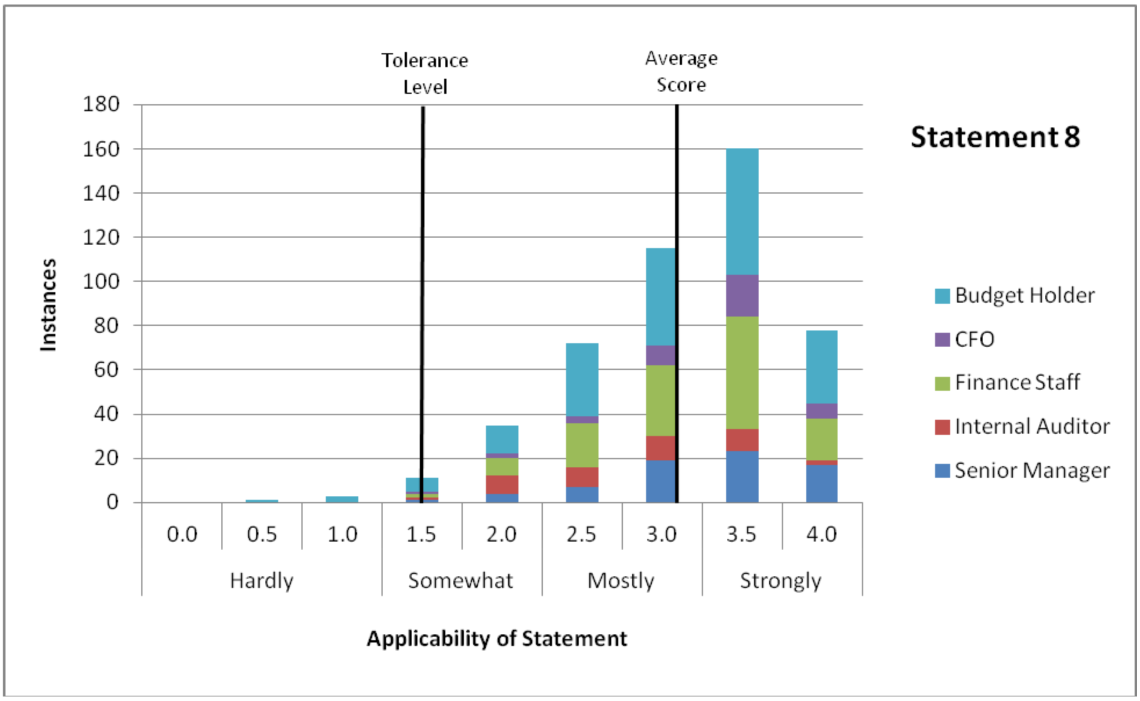
8 The department regularly monitors and evaluates controls

Individual internal controls that have previously been proven to be effective can weaken over time, fail, or become redundant. Required controls could also be non-existent. Even after remediation of deficient controls, the residual risk can still be outside the organisation’s limits for risk taking, which might necessitate the implementation of additional or different controls. For example, hacking of corporate and government computer systems has become much more sophisticated, and, therefore, what was good internal control practice only a year or two ago may be inadequate today.

Therefore the design and implementation of controls should be subjected to regular assessment. The regularity of such evaluations depends on factors such as: volatility of the environment, the importance of the control, the nature of the control (eg, routine or non-routine controls), the stability of the control, the history of failures of the control, the existence of compensating controls, and cost-benefit considerations.

Monitoring should include the investigation of events and other incidents to determine how controls have performed and how they could be improved.

The survey reports that internal controls are regularly monitored and evaluated controls “mostly”, with an average score of 3.1, well above the Treasury minimum tolerance level. See chart below.



Most comments from respondents pointed to instances of good practice in monitoring and evaluating controls.

budgets are widely visible at a low level and anything unusual is questioned.

Internal audits are undertaken regularly

The Department has from time to time provided financial management workshops to managers to ensure relevant laws and internal financial controls are understood and being adhered to. These workshops were generally facilitated by the organisations Financial Assurance Team and had a strong emphasis on identifying fraudulent behaviour.

The Department upholds stringent procurement policies, monitoring is limited and the level of risk of non compliance is low as a consequence.

I'm not aware of the monitoring arrangements re the PFA as out of my field, but certainly on a day to day basis there is communication re compliance

Monitoring exists at manager levels through internal controls review.

The Department reports quarterly to an external Committee on controls. All Senior Management are included in these discussions. External audit provides assurance over adherence to the financial regulations.

through internal policies which require the CE to sign off on deviations from the internal policies (eg tendering). The Ministry relies on the budget holder to ensure this (and Legal will raise it with the budget holder).

Finance staff are required to sign off all procurement and will check compliance with the Public Finance Act and other relevant legislation.

Corporate has a procurement and risk & assurance team. Both are working hard to improve the standards of the organisation.

Only issue is the lack of regular review of the risk management practices.

Experience suggests there remains room to further intensify the monitoring and auditing environment around certain internal controls; albeit finance-related internal controls appear fairly robust.

We are reminded from time to time about not doing this as well as it should be done. There is no room for complacency. There are clear expectations and monitoring however there is always room to be better

We are very small organisation and do not have an internal audit function. However, we do avail ourselves of internal audit for shared services.

CFO seems to keep these issues under active scrutiny

Strong governance overall, with regular times for deep dive into finance and risk. I think the combo of strategic intention sessions, OLAG and ELT is working quite well - and will be better when we get ELT working at a more strategic level, which is the current piece of work.

Risk and Audit are across a number of areas all of the time.

Policy and processes are stood up and then there is an expectation that everyone is aware of what is going on and is following these new rules/processes.

recently appointed Deloitte to review and assess the effectiveness of internal controls on an ongoing basis.

Very good monitoring processes

improving in this area and are well down the track to fulfilling its requirements

Strong emphasis within the department around reviewing and updating policies and procedures. Also engagement in getting staff updated recently on tax changes that impact on the operational processing staff, and advising cost centre managers. Of late however we have not received invites to Treasury seminars this year, which we found really useful last year.

The Ministry carries out 6 monthly legislative compliance attestation by managers at all levels.

The Chief Executive signs these reports 6 monthly. A copy of this report is circulated to the Audit & Risk Committee for information and discussion where required. This compliance programme included questions relating to compliance with key internal policies.

Ministry uses a software package to assist in monitoring legislative compliance.

Finance and Legal are active in monitoring compliance.

Any audit results or issues are shared to inform others

Controls are service oriented in how they are applied. Providing finance, legal, or HR timely opportunities to review intended actions, consistent with procedure, has a value add of support to achieve the desired outcome in a good practice way.

To the best of my knowledge we regularly monitor and evaluate controls, but I am unsure of the specifics relating to this

There were however a few grumbles about either about the resources available for this work, or conversely the attention paid to it.

We are definitely creatures of government with many processes and procedures in place that are tightly monitored, often to the degree that we are accused of too much red tape.

Weakened following internal audit personnel changes

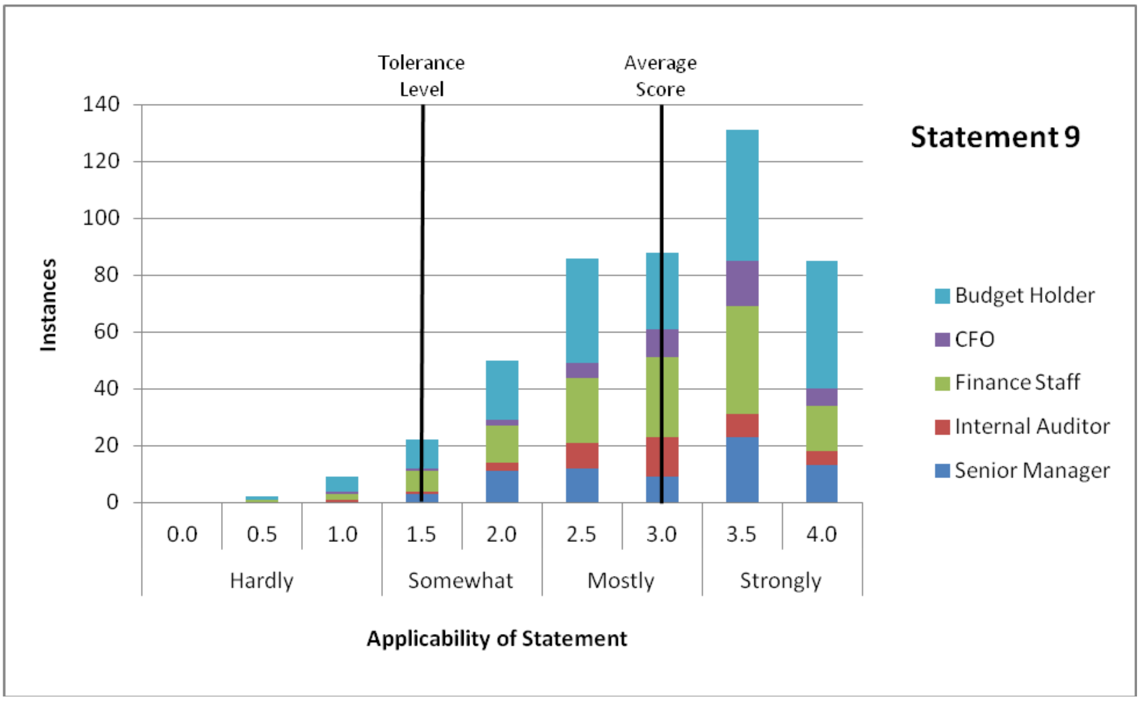
There is an absolute dependence upon managers to exercise their financial delegations and review expenditure within the rules. There is limited training or awareness training on this and the guidance is inadequate. Legislative compliance is very high level self-assertion based and is superficial (form over substance).

As far as I am aware, this control is enforced only by and to the extent that the Finance Team are able

9 The department is accountable and transparent

Good practice dictates that departments should transparently report on the structure and performance of their governance, risk management, and internal control system in their various reports to internal and external stakeholders, such as through their periodic accountability reports. In NZ these requirements are placed in statute, and there are separate scrutiny processes to ensure these statutory requirements are complied with.

The survey reports that departments are "mostly" accountable and transparent with an average score of 3.0, well above the Treasury minimum tolerance level. See chart below.



The prompts for considering this statement included questions on the effectiveness of audit committees, and on openness to and resolution of public complaints.

Smaller departments tend not to have an audit committee. Where they exist, audit and risk committees appear to have a relatively low profile in departments.

My sense is that we do - but I don't recall specifically.

An Audit Committee is currently being established, not yet operational

Internal Audit Committee was not active for a number of months. Audit letter identified some areas of weakness around grants, paying in advance of services being delivered and credit card expenditure but was mostly positive.

There are regular meetings with the Audit Committee and the CFO to discuss risk areas and risk strategies.

I know we have recently revamped membership of our audit committee, but cannot comment on their effectiveness.

We have done a fair amount of improvement work however which was in part endorsed/directed by the audit committee.

Have no current visibility over the effectiveness of the Audit committee so hard to rate the statement

I know the organisation has an audit committee but I am not in a position to comment on its effectiveness.

While all of these are in place the bottom up mechanisms that should inform them are lacking or immature.

I have no dealings with the Audit Committee if it exists.

The Assurance and Risk Committee has this function with regular reporting and internal audit to support a sound discipline

The Office has an Advisory Board who acts as a Risk and Audit committee. They meet quarterly.

PCE is a small office of 23 people, we do not have an Audit Committee.

There is an Audit and Risk Management Committee which is in the process of being refreshed. It is in abeyance while we do so. Last meeting was March 2015. Anticipate its return in six months.

We have an audit committee - it is currently under review to see whether it could be more effective.

We have a strong culture of being accountable and transparent. As with many departments we suffer a bit from being able to fully measure the benefits and value of what we do, which I think hinders our ability to be fully transparent. But I would love it if we could keep working to get those measures.

The Dept does not have an Audit Committee. It has a Risk and Assurance Committee which covers audit and also an External Advisory Committee that also looks at risk in the context of DIA's ability to deliver its strategy.

This office is too small for an audit committee

The Ministry has 3 independent Audit & Risk Committee members who provide support and advice to the CE. Since 2012, Audit NZ has assessed and rated the Ministry's internal controls to be 'Very Good'.

The Ministry has chosen not to have an Audit Committee as such as it is a policy shop. Instead it has a panel of external advisers to consider and comment on organisational matters.

Crown Law has recently established an assurance and risk committee with a majority of external members including the chairperson. We are currently seeking a third member for the committee.

A number of departments noted a lack of public interface as a reason for limited interaction with the public. Those that do have a public interface could generally point to website feedback and complaints

website provides and encourages information and feedback

The Department is open to communication via office contact details advertised on website and other forums. I am not aware of communications channels strictly dedicated to dialogue over financial matters. Often complaints of this nature do come through via the general communication or in extreme cases OIA's, complaints to the DG, Minister. Regular examples of financially related complaints pertain to public questioning around the rationale for a pest control or other work where the rationale is not understood or appreciated. Vehicle and helicopter use also attract public interest.

Processes for customer complaints are publicised.

Feedback mechanisms are provided on website
http://www.mbie.govt.nz/contact-us/reporting-alleged-dishonesty-by-mbie-staff

Clear advice on the Ministry's website including system for lodging complaints online

Well published on our website including direct links to register complaints

we do not have a complaints policy at the present.

We do not interact directly with the public.

Stronger on respondent than customer side I suspect

I am aware that there are internet methods of registering concerns - I am just not aware of where.

The latest audit on the Ministry's complaints management identified that the Ministry need to incorporate a section in its external facing website to provide instructions on who and how the public should make their complaints to.

Ministry as a policy shop does not have much public interface but contact details are available.

We are not public facing in the strictest sense. The Ministry provides a general inquiries contact and named individual contacts. Contact details for Ministers are also provided. OIA responses provide the Ombudsman's contact details should a person have a complaint or concern.

The Department's external website publishes how members of the public can register concerns or complaints

My understanding is the department publicizes how to make enquiries on a number of issues, but not specifically how to make a complaint. We do inform requesters under the Official Information Act of their ability to complain to an Ombudsman.